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The Director of Central Intelligence  
Washington, D.C. 20505

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National Intelligence Council

NIC #05838-85  
22 November 1985

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

THROUGH: Chairman, National Intelligence Council  
Vice Chairman, National Intelligence Council

FROM: Fritz W. Ermarth  
National Intelligence Officer for USSR

SUBJECT: Testimony to SSCI on the Future of the Soviet System

1. On 22 November 1985 I gave the attached prepared testimony to the SSCI. This was the first of what may be a series of hearings on internal and economic problems of the Soviet system and what the Intelligence Community needs to cover them adequately. This SSCI interest comes originally from Senator Bradley, one of whose staffers, John Despres, took the lead in setting up the session; but Senator Durenberger expresses a keen interest as well.

2. After some contention about format, it was decided that I would lead off. I was followed by Andy Marshall -- who made familiar suggestions about the need to use a broader definition of defense in examining the Soviet economy, and by Harry Rowen -- who presented a precis of his recent paper on Soviet economic troubles.

3. After remarking that the recent flap between you and him was entirely the product of bad journalism, Senator Durenberger made a point (which I didn't fully follow) about the need to assure that intelligence resources were used in an efficient and relevant way, and asked a question about the different perspectives of analysts of different generations to which I had referred in testimony. Senator Cohen asked about the impact of computers on Soviet society. Senator Bradley was interested in Soviet oil problems and more generally in whether we were saying the system is "doomed". I repeated our judgment that the economy was not threatened with collapse, but that its performance was far short of regime goals.

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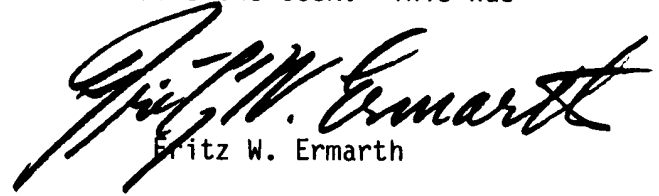
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4. Bob Gates will soon discuss with Bernie McMahon a follow-up session, tentatively scheduled for 12 December.

5. Steve Ockenden, an SSCI Staffer, has asked for a meeting with me and [ ] on the impact of the Afghan war inside the USSR. This has been scheduled for 5 December.

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Fritz W. Ermarth

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TESTIMONY BY NIO/USSR BEFORE SENATE SELECT COMMITTEE ON  
INTELLIGENCE: THE FUTURE OF THE SOVIET SYSTEM;  
21 November 1985

Mr. Chairman:

By happy coincidence, we have for reference at this hearing a recently completed National Intelligence Estimate on the domestic problems of the Soviet system.

Let me begin my testimony by briefly summarizing the findings of this estimate.

The Soviet system created by Stalin and kept largely intact by all his successors is suffering from basic ailments, some the products of systemic old age, more of them the products of the very nature of the system which is poorly suited to any of its present goals save the retention of centralized political power.

None of these problems is going to bring down the Soviet regime or collapse the economy for the foreseeable future. But in the long term, as Soviet leaders themselves fear, they could threaten the system if not corrected. They do not stop the USSR from presenting a formidable political and military challenge to the US; but they do interfere with Soviet international aspirations in significant ways. Soviet military

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leaders, for example, are concerned about maintaining the technological competitiveness of the Soviet military over the long run if the broader economy is not technologically competitive.

The basic problems of the system are three:

The secular downturn of economic growth, especially technological backwardness.

A parasitic party-state bureaucracy that is a massive obstacle to progress rather than the mobilizing machine it is supposed to be.

A lethargic workforce, poorly motivated by material or moral stimuli.

Both as causes and effects, these problems interacted with a variety of other social ills which got dramatically worse in recent years:

Up until Gorbachev's accession, a basically immobile political leadership.

Various social pathologies, such as alcoholism, crime, drug abuse, and massive corruption by leaders and led alike.

The spread of various dissenting or alienated attitudes, such as nationalism and religion, despite the suppression of overt political dissidence in recent years.

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As these problems worsened, the Soviet elite became progressively more unhappy, pessimistic, and even fearful. Many outside observers could perceive the deepening social malaise in the USSR. But US intelligence was better equipped than others to track the deepening gloom in the Soviet nomenklatura class, [REDACTED]

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[REDACTED] Meanwhile, the Soviet working population was more and more unhappy as well, especially with stagnant consumption, and gave evidence in a rising number of isolated but still significant strikes, protest actions, and the like.

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After some years of indecision and milling around, the new Gorbachev regime is clearly determined to do something about the problems of the system at the material and the spiritual levels. In fact, future material progress depends on immediate spiritual progress in the form of a more disciplined and motivated management and work force.

The first stage of Gorbachev's revival strategy depends heavy on "human factors", better leaders (hence, his cadre renewal measure), more discipline (hence, his anti-alcohol campaign), and more enthusiasm (hence, better propaganda and a lot of promises, but so far not much more, about a brighter future).

The next installment is a massive modernization of industry's capital stock based on a shift of investment emphasis to machinetool building and technological advance. This can only bear fruit in the 1990s, if it works.

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Finally, Gorbachev says emphatically but vaguely there must be structural reform which streamlines central planning and gives enterprise management the room and incentives for risky innovation. We don't know exactly what Gorbachev will do here. We do know the painful truths that his more progressive advisors are telling him, however. On one hand, there cannot be progress without significant decentralization. On the other, decentralization will be perilous for the ruling establishment and its privileges. We estimate that Gorbachev will err on the conservative side by a healthy margin. But he may not control all the side effects of what he chooses.

The prospects for Gorbachev's revival strategy are uncertain and even risky.

His economic growth goals for the next five years and out to the year 2000 involve improvements in labor productivity that the USSR has not achieved any time since World War II.

The human factors stimulus depends on the influence of shaking up the bureaucracy and motivating through propaganda. This influence may not be sustainable.

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The system faces bottlenecks and adversities that could become critical. For example, we think there is a 50-50 chance that the oil production downturn will cut into domestic and East European consumption requirements in the next few years. It already cuts against hard currency earnings needed for industrial modernization. Some bad weather could return a critical situation in food production.

Many of Gorbachev's measures will increase tensions within Soviet society precisely because they are intended to shake people up and make them less secure. But all the social and political effects of this under middle-aged Stalinism are not easy to foretell and manage.

In trying to assess the prospects for his strategy, we face the same uncertainties as does Gorbachev. On balance, we are on the skeptical side. We don't want to underrate his capacity to get a sustained increase to growth performance through human factors. But we think that, five years from now, the economy will look a lot like it does today; and there are more uncertainties on the down side than the up side. We are, if anything, even more skeptical with respect to social and morale factors. These problems are deeply rooted in the nature of the system and the way it tries to control people.

Having summarized the recent NIE, let me address these issues in the context of the questions posed by your letter of 15 November.

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First, what strategic decisions face the new Soviet leadership in the short term?

They have already made two strategic decisions:

One has been to depart from the passive and evasive approach of late Brezhnev and to try to tackle the system's problems. Gorbachev is well into the easy part, shaking up the top leadership; most of the hard part is yet to come.

The second strategic decision has been to engage in a skillful activist foreign policy campaign aimed at eroding the national security agenda of the Reagan Administration from its first term, not by concessions or compromising important international goals, but by stimulating a complex of forces within the US and NATO to have this effect. If the Soviets can achieve this, they will have a more predictable, less challenging environment for addressing domestic problems, i.e., for balancing the traditional goals of defense, investment, and consumption.

We are now somewhat uncertain as to what Gorbachev has already decided with respect to this balance in the next five years. The five year plan has been issued, and decisions about it supposedly made. But they could be remade. On one hand, investment goals and consumption requirements almost oblige the USSR to hold defense steady or even to reduce it

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somewhat. On the other, there are costly programs in research and development pressing on the defense sector quite apart from the strategic systems subject to arms control. The purpose of Soviet arms control policy appears to be a) to avoid unplanned future growth in defense attendant to, for example, an increase in their effort on SDI-type programs, and b) to achieve a political effect, similar to that of the early 1970s, when US defense spending declined in many areas including those not covered by arms control.

Thus, when we look at Soviet military programs we tend to expect substantial defense growth. When we look at the economy, we are encouraged to expect relatively slow defense growth. Right now CIA is doing new analysis to see if we cannot delimit Gorbachev's real options and divine his course. One thing we can say with confidence, however: It will take more than a modest defense bonus to regain and sustain a major acceleration of economic growth overall.

This brings use to strategic decision on management reform. I've already outlined the central dilemma facing the regime. We do not know how they will try to solve it. We expect they will proceed cautiously, lean to the conservative side, and pursue a mixed strategy of better central planning with more enterprise autonomy, and perhaps a bit of marketization in the service sector. How much they will get out of this economically is uncertain. Equally interesting, however, will be the social and political side effects of any economic reform that has any

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prospect of working. Inevitably it will threaten to reallocate significant margins of political power inside the bureaucracy and put new strain on the old social contract of Stalinism, "we pretend to work, and they pretend to pay us."

In the years ahead, we expect US policymakers to be increasingly interested, as they have been in the recent past, in the entire fabric of Soviet domestic reality and policy.

In resource allocation policy and economic management approaches.

In the responses of society and the elite to regime policy, and the condition of Soviet popular morale.

In the relationship between Soviet domestic conditions and international behavior. For example, the economic costs of sustaining Soviet interests in Nicaragua and even Afghanistan are not sufficient to cause their abandonment. But what if Moscow were persuaded that it won't get the international breathing space it wants overall unless it compromises in these areas?

As in the past, our customers will be most interested in high quality intelligence on Soviet leadership perceptions and decisions about these issues. But to a larger extent than in the past, they will want our

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independent judgment about the ground truth of the domestic realities bearing on the leadership. The late Brezhnev period shows how much the Kremlin can get out of touch with internal reality.

You can readily infer from these remarks that we feel a good deal of uncertainty about Soviet domestic prospects out beyond five years, within several broad parameters: The Soviet system will continue to be internally troubled; the leadership will continue to regard political control at home as its top priority; and it will continue to try to expand its power and influence internationally.

Within five years, the more important uncertainties concern Soviet economic policy and the returns in growth rates they achieve. Out into the 1990s additional uncertainties are added, mainly the society's response either to improved economic conditions or to continued slow growth, especially in consumption. We are reminded here of Tocqueville's remark: No moment is more dangerous -- let us say uncertain in this context -- as when an incompetent dictatorship seeks to mend its ways.

These matters do impact on Intelligence Community priorities and resources in the years ahead. As NIO/USSR I am not properly equipped to delve into the management issues. For that I believe you will find the line management of the communities agencies more suitable witnesses. I believe, however, that I can make some useful observations on the basis of two years in this job and prior experience.

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To a degree far greater than was the case in the mid-1970s, when I for one thought it was needed, the Community, the CIA in particular, is now focused on domestic social, economic, and political conditions in the USSR outside the Kremlin. This applies to both collection and analysis. For example, in CIA the capability to study Soviet defense industries (as opposed to tabulating their output for costing purposes) has been substantially rebuilt. Where in the past most analysts of Soviet internal affairs worked on Politburo politics, now two branches examine societal and bureaucratic developments. There is, unfortunately, no good way to bound the problem. Almost everything about the USSR is interesting and valuable.

Due to manpower increases in recent years, our cadre of trained junior analysts on the USSR has grown encouragingly. Many are still relatively inexperienced, but are maturing rapidly in the job. In some ways we may be better off for having so many newcomers unburdened by past patterns. We may, as a result, be less vulnerable to the "I've seen it all before syndrome" that can afflict old timers. There are enough of the latter around, however, to keep an even keel.

Let me finish by mentioning an area of weakness, not just of official intelligence, but of the entire American community of Soviet watchers. We need to pay more or more systematic attention to the

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soft side of Soviet social reality: To real social patterns of behavior and how people think, worry, dream about their future. In most societies this isn't of deep concern to us mainly because they are open to ready assessment by others. In the USSR, this didn't matter much in the past. Now it does. But we still depend heavily on people who can get inside and look, listen, and talk, on journalists, academics, scientists, businessmen, sports figures, religious contacts, and especially on Soviets who come out. [REDACTED]

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[REDACTED] We shall profit indirectly from the increased flow of resources to academic studies of the USSR. But, in my personal opinion, the problem is too much for traditional methods and bureaucracies. I don't know what the right formula is. Probably no one approach will do. And more money will, as usual, be required. I do know, however, that intelligence officers and agencies depend on their reputations for competence, professionalism, and discretion to maintain ties with outside worlds of expertise, slowly in repair since the mid-1970s, and without which we cannot properly study the contemporary USSR.

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